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JAPAN'S FISCAL POLICY: SEEKING NEW DIRECTION?

Summary

In several important respects Japan's fiscal policy is at a crossroads. Having achieved in FY 1990 the government's objective of eliminating new issues of deficit-financing bonds, policymakers are debating new goals and priorities. Although the strong domestic economy provides a thick revenue cushion, new factors -- both domestic and foreign -- pose complex questions for fiscal planners.

Overview

Tokyo continued its steady course on fiscal policy into FY 1990, combining moderate increases in discretionary general account spending with a rapid reduction of new borrowing. The net effect of this policy stance, initiated in FY 1987, has been a more limited public-sector role in economic growth in recent years than at the beginning of the 1980s. Nevertheless, Tokyo has retained the ability to influence economic activity in specific areas through a willingness to reallocate general account funds when needed. This results in a chaotic pattern of increases and reductions among categories and in the same category between years. The supportive role of the Fiscal Investment and Loan Program continues to grow under the dual demands of greater public works spending and bigger foreign aid budgets.

General Account Expenditures - The gradual relaxation of fiscal austerity since FY 1986 can be seen from Table 1. The overall growth of general account spending has outpaced the nominal expansion of gross national product for the last three fiscal years and appears likely to do so again in FY 1990. As Table 2 shows, however, much of the growth has come from mandatory payments --

transfers to local governments and interest costs on the national debt. The expansion of discretionary outlays has been modest, reaching levels greater than the rate of inflation but less than the rate of overall economic growth in both FY 1988 and FY 1989.

One reason behind this divergence of discretionary and mandatory outlays is an informal four-year-old Ministry of Finance rule that calls for a freeze on capital outlays and a 10 percent cut in current operating costs. As is the norm, other ministries and agencies engage in tough negotiations with MOF to gain exceptions to this stringent spending guideline; results vary. Interestingly, no category has been reduced consistently since FY 1986 (although the budget for pensions has come close due to the decreasing number of veterans). Instead, a pattern of lean years then one good year is common. For example, social security outlays in FY 1988 jumped 14.3 percent but went up much less in other years.

Some items are politically sacrosanct. Defense and foreign aid have escaped MOF's budget ax because of strong foreign pressure for greater spending in these areas. Defense outlays have increased in the 6 percent range, while economic cooperation has been blessed with growth of 8 percent or more since FY 1987. (The figure for FY 1990 probably will be beefed up with a supplemental appropriation.) Other items have lost their sanctity. Food price supports were untouchable until the late 1980s. Energy programs lost favor in the mid-1980s but since have regained some ground. Even foreign pressure is not enough to guarantee steady growth. The budget for public works, for example, shows extreme swings despite consistent American pressure on Tokyo to spend more in this category.

The projected leap in the cost of servicing the national debt during the current fiscal year is illusory. The interest payment component of the debt service figure is expected to grow only slightly from FY 1989's level of just over Y11 trillion ($73 billion at Y150=$1.00). The extra monies, a little more than Y3 trillion ($20 billion), will be used to buy back some of the mountain of outstanding national bonds. It is likely from now on that the Ministry of Finance will redeem bonds whenever it can find the money.

General Account Revenues - The revenue plan shown in Table 3 indicates that the government believes it has achieved its FY 1982 goal of eliminating new issues of deficit-financing bonds by the start of the current fiscal year. The downward trend in this number since FY 1986 is clear, and the zero figure for new deficit bond issues in FY 1990 underscores the government's determination to finance operating expenses out of taxes and other revenue sources and borrow only to fund capital expenditures. Whether the government can keep its pledge is a question examined in more detail below.

A major reason for implementing the controversial 3 percent consumption tax, according to the ruling Liberal Democratic Party, was to reverse the increasing reliance on direct taxes. This clearly is not the case in either FY 1989, the year in which the tax took effect, or FY 1990. Direct taxes, which generated 54.8 percent of all receipts in FY 1986, for example, are expected to account for 65.1 percent of total revenues in FY 1990.

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The strength of the Japanese economy in recent years is the major reason direct taxes continue to provide an increasing proportion of revenues; corporate taxes, in particular, have increased much faster than the government anticipated, thanks to buoyant demand at home. But a close look at Table 3 shows another reason why Japan's dependence on direct taxes has not lessened. Revenues from the consumption tax are running well below projected levels, failing to make up for the elimination of various commodity taxes. According to the Ministry of Finance's latest figures, consumption tax collections had reached merely 34.9 percent of the projected first-year total of Y3.6 trillion or $24.1 billion. MOF analysts point to difficulties implementing the tax and to loopholes for smaller firms as the causes of the shortfall (see JEI Report No. 24B, June 22, 1990).

Table 3 also indicates that individuals once again are bearing more of the tax burden, a development counter to the government's consumer-oriented policies. Personal income taxes are predicted to account for 49.6 percent of direct tax revenues in FY 1990, up from the most recent low of 46.7 percent in FY 1988 but still well under FY 1986's figure of 55.6 percent. At the same time the corporate tax burden, which had reached 48.8 percent in FY 1988, is projected to fall in the current fiscal year to 45.7 percent. The forecasts for FY 1990 also show that individuals paying self-assessed income tax are expected to contribute less to personal income tax revenues than in FY 1989 -- 23.2 percent versus 25.1 percent. Conversely, people having taxes withheld will see their share rise from 74.9 percent to 76.7 percent. These figures are likely to make the average salaryman even more disgruntled with a tax system that allows the self-employed (a category that includes politically powerful farmers, small shop owners and professionals) to avoid taxes.

Fiscal Investment and Loan Program - Japan's capital budget continues to set records for overall spending (see Table 4). Budgeted outlays came to more than one-half of the initial general account for the first time in FY 1989 (53.4 percent) and top this level again in FY 1990 (an expected 52.2 percent). It should be noted, however, that FILP expenditures probably will fall below the 50 percent mark for FY 1990 when the supplemental budget is taken into account, just as they did in FY 1989 (48.7 percent). FY 1990 also is notable because the growth in FILP spending lags behind that of general account outlays for the first time in many years.

There are few surprises in terms of the allocation of FILP monies. Funds for housing and foreign economic cooperation continue to increase at a fast pace, an outgrowth of the government's commitment to increase Japan's social overhead capital and bolster foreign aid. The fast-growing outlays for "cash management" also fall into the public works area since much of the money flows into special construction projects. Other public works-related spending categories -- social infrastructure, land conservation, roads, communications and regional development -- show a mixed picture. An interesting new trend is the rapid growth of welfare-oriented spending, perhaps in preparation for the expected increase in the number of senior citizens over the next decades.

As for FILP funding sources, some points are worth noting. First, the direct link between the general account and the FILP budgets -- the Industrial Investment Special Account -- is becoming thin and possibly could be eliminated in coming years. MOF appears to be taking this tack more to trim the rise in the general account budget than to make the FILP budget independent; the transfer from the special account comprises less than 0.2 percent of total FILP

revenues. An important point is the continuing role of funds controlled by the postal savings system. Postal savings and life insurance monies contributed 40.8 percent of all FILP revenues in FY 1989 and and are expected to cover 36.2 percent of spending in FY 1990. Contributions to the government-run pension fund and other government trust monies have increased their dominance as the single largest source of revenues, rising from 50.6 percent in FY 1986 to a projected 58.1 percent in FY 1990. With the government in control of the major sources of FILP funds, it would appear that stability is assured. MOF's advancing program of financial liberalization, however, threatens to shake up the system.

What Next?

The success of the government's austerity policies can be viewed from another perspective. Table 5 shows the sharp decline in reliance on deficit-financing bonds as well as the effort to hold construction bond issues in check. The current general account deficit has shrunk from a high of 35.4 percent in FY 1979 to just 10.7 percent in FY 1989 (in terms of revised budgets), with particularly impressive progress made over the last five years. Fiscal planners, goaded on by the steadily rising cost of servicing the outstanding debt, are not resting on their laurels. With fully one-fifth of general account funds devoted to debt service, the Finance Ministry has begun to focus on reducing the outstanding national debt.

The government's apparent success in eliminating deficit-financing bonds plus robust economic growth have helped push down the ratio of outstanding debt to nominal gross national product from its FY 1986 high of 43.4 percent to 40.4 percent in FY 1989 (see Table 6). Issues of refinancing bonds, however, have been growing as debt floated in the 1970s comes due; they will continue to increase as bonds issued in the 1980s mature. Despite the run-up in interest rates over the last year, refinancing this debt will cost less than, say, in the early 1980s. In FY 1989, for example, debt service costs were almost Y650 billion ($4.3 billion) lower over the life of the bond for every percentage point difference between the rate of return on the original bond and the refinancing bond that replaced it (in the 2 to 3 point range). Although headed in the right direction, the high total bond-to-GNP ratio is a source of concern to MOF, which has addressed this issue in its latest medium-term fiscal projection.

The government issues a new five-year fiscal projection every year. By comparing the projections for FY 1989 and FY 1990 (Tables 7 and 8, respectively) it appears that MOF is strengthening its austere stance. The newest projection envisions lower total expenditures for FY 1991 and FY 1992 than did the previous year's estimates. The latest projection for debt service costs, however, is higher than in the previous outlook. The same applies for transfers to local governments. Therefore, if total outlays are projected to fall while mandatory outlays are expected to rise, discretionary spending will have to be squeezed even tighter than before.

On the revenue side the Council on Fiscal Policy set four goals for the first half of this decade (see JEI Report No. 12B, March 23, 1990 for full details):

• Reducing total bond issues to less than 5 percent of total general account revenues by FY 1995. Since borrowing is expected to account for only 8.4 percent of total revenues in FY 1990, this goal should be within easy reach.

• Redeeming deficit-financing bonds ahead of schedule to cut debt service costs.

• Eliminating budget structures that hide the true size of the deficit and generally make the budget less transparent.

• Restraining the growth of overall government spending to less than the rate of nominal GNP expansion.

From MOF's viewpoint, therefore, the direction of fiscal policy for the first half of the 1990s will be toward greater austerity. Bonds will be redeemed before their 60-year maximum whenever possible, as shown in the FY 1990 budget. Funding for public works will rely less on bond issues and more on general account revenues. While MOF's game plan is subject to change through negotiations with other ministries and the LDP leadership, the ministry is likely to have the strongest hand on the tiller of fiscal policy. New foreign and domestic currents, however, may deflect the course of Japanese fiscal policy.

SII . . .

One of the new currents is an outgrowth of the recently completed Structural Impediments Initiative talks, which nominally aimed at removing structures in the American and Japanese economies that prevent the bilateral trade imbalance from narrowing. As the Bush and the Kaifu administrations tried to draft first an initial assessment of the discussions and then a final report, Japan's fiscal policy sprang up as a major bone of contention (see JEI Reports No. 15B, April 13, 1990 and No. 26B, July 6, 1990).

Washington's rationale for pressing Tokyo to boost public works outlays rests on their direct and indirect effects:

• Improved infrastructure - More housing, sewer systems, parks and other forms of social overhead capital would improve the quality of life in Japan. Likewise, better roads, airports, ports and communications systems would make Japan's markets more accessible to foreign manufacturers.

• Expanded construction market - Foreign firms can be expected to benefit from increased demand by Japanese contractors. U.S. engineering and architectural companies plus exporters of building materials and prefabricated homes should benefit.

• Expanded goods markets - New offices and homes must be furnished, equipped and decorated. More parks and leisure facilities should encourage Japanese spending on clothing and recreational equipment. Foreign products and services are competitive in many of these areas.

• Reduction of Japan's savings-investment imbalance - From a macroeconomic standpoint Japan's supply of domestic savings far outweighs its domestic investment needs. The discrepancy must be balanced by either government deficit

spending or a current account surplus. (For a detailed explanation, see JEI Report No. 23B, June 15, 1990.) Washington hopes that expanded public works outlays both will break Tokyo's austerity policy (promote deficit spending) and reduce the savings-investment gap (promote consumption rather than savings).

In response, Tokyo raised the following points:

- Fiscal inflexibility - It would be extremely unwise for the government to set a floor for public works spending since this would severely limit its usefulness as a macroeconomic policy tool.

- Inflation potential - While such a spending floor would not present a problem when the economy is weak (since the government would want to raise spending to spur demand), it would pose a major inflationary threat if the economy already is growing strongly. With the economy registering a strong performance in the first quarter of 1990 and showing signs of having reached full employment, additional government spending at this time only would boost inflation.

- Capacity to serve as a source of savings to the world - Given the scarcity of savings in some developed countries (especially the United States) as well as in the Third World and in Eastern Europe, many Japanese feel it is shortsighted of the United States to demand that Japan reduce its savings pool.

Washington initially pushed Tokyo to commit itself to raising public works spending over the next 10 years to 10 percent of GNP from the current 6 to 7 percent range (6.7 percent in FY 1989). According to U.S. calculations, this would mean a total of about Y500 trillion ($3.3 trillion) spread over a decade. As the deadline for the final SII report neared, the Bush administration backed off somewhat, calling on Tokyo to promise only a "sufficiently large" investment plan in the final report. Some U.S. trade policymakers added a condition, however, suggesting that Tokyo set a five-year spending goal as well as a 10-year target; this would prevent the government from concentrating the spending in the last few years.

Japanese officials worked hard to pursuade their American colleagues that some flexibility was necessary. The United States would never consider asking any of its other allies to set such a specific policy, a number of Japanese complained, adding that Washington was prepared to commit itself only to reducing the federal budget deficit and was unwilling to set any specific targets or milestones. In late May Japanese negotiators offered to spend Y400 trillion ($2.7 trillion) in the 10 years from April 1991. The American SII team rejected this figure, arguing that it represented no change from the current situation vis-a-vis GNP. At the start of the final round of SII talks June 25, Tokyo suggested the Y415 trillion ($2.8 trillion) level. That number also was vetoed by Washington. Tokyo finally agreed to a budget of Y430 trillion ($2.9 trillion), a figure that should boost the ratio of public works outlays to projected GNP to over 7 percent.

The public investment spending target for the FY 1991-FY 2000 period represents a sharp increase over the Y274 trillion ($1.8 trillion) spent during the last 10 years. To achieve the Y430 trillion goal, public works spending will have to grow about 6.1 percent annually. Compared with the average annual expansion of 4.75 percent predicted in the government's current five-year

economic plan (covering FY 1988-FY 1992) and the past decade's average annual increase of 1.2 percent, the magnitude of Japan's challenge becomes clear. It is not certain how MOF will respond to the new target but it surely will not abandon its fiscal goals completely.

. . . And Other Complications

Other new currents that could influence the course of Japanese fiscal policy also may be beyond MOF's control.

• Financial liberalization - Tokyo is nearing some critical decisions in its program to restructure domestic financial markets. On a general level moves to deregulate interest rates probably will push up the average. The government will be forced to offer higher rates of return on its bonds and notes in order to attract borrowers. This will raise the cost of new issues and the refinancing of old ones. It is not clear from MOF's budget estimates whether it has factored the impact of interest rate deregulation into its calculations of debt service costs.

More specifically, the restructuring of the postal savings system eventually must become part of Tokyo's financial liberalization program. Since the system controls a large chunk of the monies funding FILP outlays, the impact of restructuring on fiscal policy could be significant. If the postal system were freed to compete with commercial financial institutions, it would have to earn a higher rate of return on its investments than it now gets from purchases of government bonds and transfers to the FILP account. Whether FILP-funded projects can earn higher returns is debatable. A significant portion of FILP monies are used as foreign aid via the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund. It would be paradoxical for these lenders to ask developing countries to pay higher rates of interest to satisfy Japanese savers. Investments in roads and other types of infrastructure would have to show a higher return, at least on paper. The Finance Ministry, nominally in control of the financial liberalization process, has not yet publicly aired its views on these matters.

• Pension fund reform - To meet the expected skyrocketing demand for social services by an aging population, Tokyo has opened a debate on how to reform its pension and trust fund system (see JEI Report No. 21A, May 25, 1990). Even more than the postal savings system, investments by the government pension and trust funds provide the bulk of monies for FILP spending. It is estimated that MOF's Trust Fund Bureau currently earns a return of 5.1 percent on the pension and trust funds it invests, including those in the FILP. This compares dismally with a 9 percent-plus return on privately managed pension funds. If the government is to fulfill its fiduciary duty to pensioners, it cannot accept the lower returns for long. Since FILP projects cannot generate competitive rates of return for the Trust Fund Bureau, this source of funding for the capital budget may be in serious trouble in the future.

• Special nontax revenues - Japanese fiscal planners have enjoyed a windfall in recent years from the sale of government-held shares of what were formerly public monopolies, primarily Nippon Telegraph and Telephone Corp. Sales of NTT shares have allowed MOF to devote an extra Y1.3 trillion ($8.7 billion) a year to public works spending starting in FY 1988. The public's love affair with the high-priced shares ended in 1989, however, when the third

tranche was offered at a price less than the previous issue. The government was forced to offer fewer shares than originally planned. This year's across-the-board decline of shares listed on the Tokyo Stock Exchange has further darkened prospects for the proposed fall sale of NTT shares. Furthermore, the sluggish stock market has dimmed the outlook for the sale of government-held shares in other ex-public corporations, such as Japan Railways Group, the successor to the debt-ridden Japanese National Railways. In the short run MOF cannot count on these windfalls. Even in the long run it cannot count on them because of the limited number of shares the government owns or is planning to sell. How MOF will respond when these windfalls run out is an open question.

• Domestic politics - Perhaps the most troublesome and vexing developments arise from the ongoing domestic political battle between the LDP and the opposition parties. The LDP was having great difficulty pushing its expenditure and revenue bills through the Diet even before it lost control of the upper house of the Diet in last year's July elections. The ruling party was barely able to obtain Diet approval of the FY 1989 supplemental budget before the end of the fiscal year (see JEI Report No. 13B, March 30, 1990). The LDP then had to rely on the lower house's constitutional precedence in spending matters to put the FY 1990 general account budget into effect 68 days after the start of the fiscal year (see JEI Report No. 20B, May 18, 1990). Moreover, because this constitutional precedence does not extend to revenue measures or legislation dealing with such subjects as financial reform, MOF's plans for tax amendments or financial reforms could be completely frustrated. As an example, the government has been unable to implement the general account budget on time for the past several years, mainly due to opposition to tax measures (see JEI Report No.24B, June 22, 1989). Since the LDP's hopes of regaining control of the upper chamber via the ballot box are slim within the next decade (assuming alliances with opposition parties cannot be hammered out), the ministry's best-laid plans may be for naught.

Conclusion

The Finance Ministry can point to the rapid elimination of new deficit bond issues with justifiable pride. Fiscal austerity has not been a popular policy with other ministries nor with many influential domestic political groups and foreign allies. While coming ever closer to balancing the general account budget, Tokyo still has been able to expand financial support to meet its growing international responsibilities in the areas of defense and foreign aid. Moreover, the domestic economy is enjoying the second-longest expansion of the postwar era, and the outlook for setting a new record is good.

Having achieved all this, MOF now is groping for new goals. The latest medium-term fiscal plan contains modest, easily achievable objectives with regard to debt reduction, increased budget transparency and fiscal flexibility. But the plan was drafted before Tokyo agreed to the big boost in public works spending in the final round of SII talks. That pledge will make it much more difficult for MOF to continue its pitch for austerity, which already was increasingly out of step with Tokyo's publicly professed desire to bring Japan's standard of living up to levels commensurate with its economic power.

Complicating the fiscal debate are forces beyond MOF's control. The final SII report includes a follow-up mechanism, meaning that American pressure for a looser fiscal policy will not relent. Nominally in charge of financial

reform and the restructuring of domestic financial markets, the ministry is being squeezed by powerful domestic interests and equally powerful economic forces released by the liberalization program's progress to date. MOF also is somewhat adrift as its expenditure and revenue plans are buffeted by recent domestic political storms. Finally, MOF (and the government in general) is finding itself increasingly less able to influence key aspects of economic activity, thanks in part to the success of its own deregulation program and efforts to reduce the size of the public sector. Volatile equity markets, for example, are endangering revenue plans. Despite this erosion of influence, fiscal policy still is a potent arrow in the government's quiver of policy tools. MOF will have to be more creative in responding to the new economic and political environment if this acuity is to be preserved.

For further information, contact Jon Choy.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Table 1: Japan's General Account Expenditures (Revised), FY 1986-FY 1990*

(in billions of yen and percent change)

	FY 1986		FY 1987		FY 1988		FY 1989		FY 1990**	
Total Expenditures	Y53,824.8	1.1%	Y58,214.2	8.2%	Y61,851.7	6.3%	Y66,311.9	7.2%	66,236.8	9.6%
Social Security	10,090.3	2.6	10,321.8	2.3	11,801.4	14.3	12,474.2	5.7	11,614.8	6.6
Public Assistance	1,110.4	2.6	1,105.2	-0.5	1,062.0	-3.9	1,080.6	1.8	1,108.7	-2.9
Social Welfare	1,977.8	-3.8	2,033.2	2.8	2,146.3	5.6	2,309.7	7.6	2,405.6	7.8
Social Insurance	6,137.3	5.0	6,310.2	2.8	7,732.3	22.5	8,203.4	6.1	7,194.7	8.3
Health Services	497.2	7.1	512.3	3.0	500.7	-2.3	526.4	5.3	558.7	6.9
Unemployment Compensation	367.6	-3.4	361.0	-1.8	360.2	-1.2	354.1	-1.7	347.1	-2.0
Education and Science	4,886.6	-0.4	5,063.7	3.6	4,982.0	-1.6	5,075.3	1.9	5,112.9	3.6
Compulsory Education	2,414.9	-0.0	2,392.9	-0.9	2,463.5	3.0	2,475.5	0.5	2,485.2	4.1
Transfer to School Account	1,083.7	0.8	1,180.1	8.9	1,124.4	-4.7	1,184.8	5.4	1,199.8	5.2
Science and Technology Promotion	381.8	1.7	473.5	24.0	426.6	-9.9	453.9	6.4	475.5	6.1
School Facilities	350.0	-9.2	354.6	1.3	283.3	-20.1	262.7	-7.3	243.8	-7.3
School Aid	575.7	1.1	580.9	0.9	601.0	3.5	615.4	2.4	625.2	1.8
Student Loans	80.5	-3.7	81.7	1.5	83.3	2.0	83.0	-0.4	83.4	0.6
Public Works	6,946.3	0.3	7,428.0	6.9	6,683.0	-10.0	7,398.9	10.7	6,214.7	0.3
Erosion and Flood Control	1,101.4	1.7	1,221.9	10.9	1,059.4	-13.3	1,080.6	2.0	1,085.7	0.5
Road Improvement	1,826.3	-1.6	1,983.8	8.6	1,744.1	-12.1	1,782.6	2.2	1,788.1	0.3
Harbors and Airports	517.3	1.1	563.7	9.0	497.1	-12.8	511.5	2.9	514.6	0.6
Housing	940.2	1.3	964.4	2.6	930.3	-3.5	1,539.2	65.5	764.1	-0.0
Social Infrastructure	989.0	1.9	1,106.1	11.8	942.6	-14.8	954.9	1.3	957.4	0.3
Agricultural Infrastructure	886.9	0.9	963.7	8.7	852.4	-11.5	867.8	1.8	869.6	0.3
Forestry and Industrial Water Supplies	170.4	0.5	181.2	6.3	163.0	-10.0	169.1	3.7	157.8	-1.5
Disaster Reconstruction	503.5	-2.0	431.6	-14.3	483.8	12.1	482.3	-0.3	66.7	0.0
Reserves	11.3	5.6	11.8	3.6	10.4	-11.9	10.9	4.8	10.6	0.2
Pensions	1,850.1	-0.7	1,895.6	2.5	1,879.8	-0.8	1,855.7	-1.3	1,837.5	-1.0
Civil Servants	121.4	-2.7	122.2	0.7	118.1	-3.4	111.8	-5.3	107.8	-3.6
Veterans	1,562.6	-1.0	1,606.9	2.8	1,599.0	-0.5	1,588.5	-0.7	1,580.5	-0.5
Other Pensions	155.9	4.0	157.6	1.1	154.4	-2.0	147.4	-4.5	141.2	-4.2
Administrative Costs	10.3	-0.1	8.9	-14.3	8.4	-5.6	8.0	-4.8	8.0	-0.2
Local Finance	9,734.7	0.5	11,086.2	13.9	13,031.2	17.5	14,964.7	14.8	15,275.1	14.3
Local Allocation Tax	9,734.7	0.5	11,086.2	13.9	13,031.2	17.5	14,964.7	14.8	15,275.1	14.3
Interest Support and Special Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Debt Service	10,664.4	4.8	11,851.4	11.1	12,030.7	1.5	12,089.8	0.5	14,288.6	22.5
Defense	3,338.0	5.3	3,507.8	5.1	3,728.3	6.3	3,969.9	6.5	4,159.3	6.1
Economic Cooperation	600.5	3.3	661.3	10.1	714.4	8.0	750.6	5.1	784.5	7.8
Small Business Assistance	225.6	6.5	263.2	16.6	257.6	-2.1	240.5	-6.6	194.3	0.0
Energy Support	570.5	-8.9	496.8	-12.9	458.4	-7.7	546.1	19.1	547.6	3.8
Food Agency Account	613.8	-11.7	688.2	12.1	480.4	-30.2	459.2	-4.4	395.2	-5.5
Miscellaneous	4,104.0	-5.6	4,292.2	4.6	4,304.6	0.3	4,987.1	15.9	4,162.2	2.6
Reserves	200.0	0.0	200.0	0.0	200.0	0.0	200.0	0.0	350.0	0.0
Industrial Investment Special Account	0.0	0.0	458.0	100.0	1,300.0	183.8	1,300.0	0.0	1,300.0	0.0

*Revised budget figures include the supplementary budget.
**Initial budget. Percent changes are based on the initial budget for FY 1989.

Source: Ministry of Finance

Table 2: Japan's Discretionary General Account Spending (Revised), FY 1986-FY 1990*

(in billions of yen and percent change)

	FY 1986		FY 1987		FY 1988		FY 1989		FY 1990**	
Total Expenditures	Y53,824.8	1.1%	Y58,214.2	8.2%	Y61,851.7	6.3%	Y66,311.9	7.2%	Y66,236.8	9.6%
Minus										
Debt Service and Transfers to Local Governments	20,399.1	2.7	22,937.6	12.4	25,061.9	9.3	27,054.5	8.0	29,563.7	18.1
Equals										
Discretionary Spending	33,425.8	0.2	35,276.5	5.5	36,789.8	4.3	39,257.4	6.7	36,673.1	3.7

*Revised budget figures include the supplementary budget.
**Initial budget. Percent changes are based on the initial budget for FY 1989.

Source: Ministry of Finance

Table 3: Japan's General Account Revenues (Revised), FY 1986-FY 1990*

(in billions of yen and percent change)

	FY 1986		FY 1987		FY 1988		FY 1989		FY 1990**	
Total Revenues	Y53,824.8	1.1%	Y58,214.2	8.2%	Y61,851.7	6.2%	Y66,311.9	7.2%	Y66,236.8	9.6%
Tax and Stamp Revenues	39,440.0	3.4	43,087.0	9.3	48,106.0	11.7	54,227.0	12.7	58,004.0	13.7
Direct Taxes	29,469.0	3.1	31,703.0	7.6	36,284.0	14.5	41,541.0	14.5	43,128.0	12.2
Income Taxes	16,393.0	6.6	16,188.0	-1.3	16,928.0	4.6	20,057.0	18.5	21,372.0	17.6
Withheld	12,979.0	5.8	12,303.0	-5.2	12,675.0	3.0	15,020.0	18.5	16,403.0	16.5
Self-Assessed	3,414.0	9.8	3,885.0	13.8	4,253.0	9.5	5,037.0	18.4	4,969.0	21.3
Corporate Taxes	11,725.0	-3.9	13,722.0	17.0	17,712.0	29.1	19,577.0	10.5	19,711.0	7.3
Inheritance and Gift Tax	1,351.0	34.6	1,793.0	32.7	1,644.0	-8.3	1,907.0	16.0	2,045.0	7.2
Indirect Tax Revenues	9,971.0	4.2	11,384.0	14.2	11,822.0	3.9	12,686.0	7.3	14,876.0	18.4
Liquor Tax	1,974.0	1.0	2,042.0	3.4	2,066.0	1.2	1,801.0	-12.8	1,914.0	6.3
Tobacco Excise Tax	986.0	11.8	1,012.0	2.6	1,011.0	-0.1	932.0	-7.8	957.0	2.7
Gasoline Tax	1,572.0	1.2	1,596.0	1.5	1,314.0	-17.7	1,365.0	3.9	1,423.0	4.2
Petroleum Tax	171.0	-56.8	190.0	11.1	290.0	52.6	438.0	51.0	453.0	3.4
Consumption Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,618.0	100.0	5,320.0	47.0
Commodity Tax	1,627.0	5.8	1,686.0	3.6	1,906.0	13.1	0.0	-100.0	0.0	0.0
Securities Transaction Tax	981.0	62.7	1,766.0	80.0	1,800.0	1.9	1,234.0	-31.4	1,234.0	10.6
Motor Vehicle Tonnage Tax	506.0	13.7	486.0	-4.0	532.0	9.5	559.0	5.1	628.0	12.3
Customs Duty	478.0	-21.5	599.0	25.3	703.0	17.4	759.0	8.0	864.0	13.8
Other	214.0	-1.8	201.0	-7.1	227.0	12.9	131.0	-42.3	134.0	2.3
Stamp Revenue	1,462.0	7.0	1,806.0	23.5	1,973.0	9.2	1,849.0	-6.3	1,949.0	5.4
Monopoly Profits	7.6	15.2	6.0	-21.1	8.0	33.3				
Public Enterprise Receipts	16.7	5.0	17.5	4.8	16.7	-4.6				
Sale of Public Properties	134.5	-14.8	180.6	34.3	126.1	-30.2	2,373.9	57.8	1,339.6	42.6
Miscellaneous	2,289.7	1.6	1,586.7	-30.7	1,353.5	-14.7				
Public Bonds	11,495.0	-7.6	10,539.0	-8.3	7,967.0	-24.4	7,111.0	-10.8	5,593.2	-21.3
Construction	5,700.0	n.a.	6,880.0	20.7	6,196.0	-9.9	6,430.0	3.8	5,593.2	-13.0
Deficit-Financing	5,795.0	n.a.	3,659.0	-36.9	1,771.0	-51.6	681.0	-61.5	0.0	-100.0
Debt Consolidation Fund	0.0	0.0	458.0	100.0	1,300.0	183.8	1,300.0	0.0	1,300.0	0.0
Carryover Surplus	441.3	114.8	2,339.4	430.1	2,974.6	27.2	2,336.3	-21.5	n.a.	n.a.

*Revised budget figures include the supplementary budget.
**Initial budget. Percent changes are based on the initial budget for FY 1989.

Source: Ministry of Finance

Table 4: Uses and Sources of Japan's Fiscal Investment and Loan Program Outlays (Initial), FY 1986-FY 1990

(in billions of yen and percent change)

	FY 1986		FY 1987		FY 1988		FY 1989		FY 1990	
Total Outlays	Y22,155.1	6.2%	Y27,081.3	7.1%	Y29,614.0	9.4%	Y32,270.5	9.0%	Y34,572.4	7.1%
Housing	5,856.2	10.7	6,328.2	8.1	6,921.5	9.4	7,460.6	7.8	8,365.9	12.1
Other Social Infrastructure	3,694.5	12.6	3,998.7	8.2	4,450.9	11.3	4,371.3	-1.8	4,222.0	-3.4
Welfare	625.9	5.1	627.7	0.3	661.8	5.4	736.0	11.2	851.9	15.7
Education	678.2	-9.0	784.1	15.6	637.6	-18.7	520.2	-18.4	554.1	6.5
Small Business	3,700.0	-1.7	3,985.6	7.7	4,030.6	1.1	4,176.4	3.6	4,337.8	3.9
Agriculture	902.1	1.3	907.8	0.6	979.4	7.9	924.4	-5.6	876.0	-5.2
Land Conservation and Disaster Work	422.7	-10.6	493.0	16.6	409.8	-16.9	357.9	-12.7	328.5	-8.2
Roads	2,024.4	10.8	2,363.0	16.7	2,512.1	6.3	2,576.8	2.6	2,700.1	4.8
Transportation and Communications	2,015.1	14.3	2,264.1	12.4	2,229.9	-1.5	2,361.6	5.9	2,304.1	-2.4
Regional Development	566.1	10.7	657.7	16.2	652.2	-0.8	676.6	3.7	682.5	0.9
Industry and Technology	635.9	5.4	630.9	-0.8	687.2	8.9	758.7	10.4	796.5	5.0
Foreign Trade and Economic Cooperation	1,034.0	-7.2	690.5	-33.2	1,171.0	69.6	1,420.0	21.3	1,603.0	12.9
Cash Management	n.a.	n.a.	3,350.0	n.a.	4,270.0	27.5	5,930.0	38.9	6,950.0	17.2
Total Revenues	Y27,155.1	5.0%	Y31,081.3	14.5%	Y33,114.0	6.5%	Y34,570.5	4.4%	Y36,572.4	5.8%
Industrial Investment Special Account	61.5	95.9	144.3	134.6	91.2	-36.8	85.2	-6.6	64.1	-24.8
Trust Fund Bureau Fund	20,738.6	3.5	24,595.8	18.6	26,206.6	6.6	26,871.3	2.5	28,453.3	5.9
Postal Savings	7,000.0	9.4	7,900.0	12.9	7,900.0	0.0	8,500.0	7.6	7,200.0	-15.3
Pension Contributions	4,300.0	8.9	4,450.0	3.5	3,500.0	-21.3	4,310.0	23.1	5,540.0	28.5
Other Revenues	9,438.6	-2.5	12,245.8	29.7	14,806.6	20.9	14,061.3	-5.0	15,713.3	11.7
Postal Life Insurance Fund	3,145.0	21.5	3,941.2	25.3	4,409.4	11.9	5,614.0	27.3	6,055.0	7.9
Government-Guaranteed Bonds and Borrowings	3,210.0	0.0	2,400.0	-25.2	2,406.8	0.3	2,000.0	-16.9	2,000.0	0.0

Source: Ministry of Finance

Table 5: Japan's Current General Account Budget Deficit, FY 1970-FY 1990

(in billions of yen and percent of total spending)

Fiscal Year	Initial Budget								Revised Budget	
	Construction Bonds		Deficit Bonds		Total Bonds		Debt Service		Total Bonds	
1970	Y430	5.4%	0	n.a.	Y430	5.4%	Y290.9	3.7%	Y347	4.2%
1971	430	4.6	0	n.a.	430	4.6	319.3	3.4	1,220	12.6
1972	1,950	17.0	0	n.a.	1,950	17.0	455.4	4.0	2,310	19.1
1973	2,340	16.4	0	n.a.	2,340	16.4	704.5	4.9	1,810	11.9
1974	2,160	12.6	0	n.a.	2,160	12.6	862.2	5.0	2,160	11.3
1975	2,000	9.4	0	n.a.	2,000	9.4	1,039.4	4.9	5,480	26.3
1976	3,525	16.0	Y3,750	19.3%	7,275	29.9	1,664.7	6.9	7,375	29.9
1977	4,430	11.9	4,050	17.8	8,480	29.7	2,348.7	8.2	9,985	34.0
1978	6,050	13.6	4,935	18.4	10,985	32.0	3,222.7	9.4	11,285	32.8
1979	7,215	12.5	8,055	27.1	15,270	39.6	4,078.4	10.6	14,050	35.4
1980	6,785	11.5	7,485	22.0	14,270	33.5	5,310.4	12.5	14,270	32.7
1981	6,785	11.8	5,485	14.4	12,270	26.2	6,654.2	14.2	12,900	27.6
1982	6,516	11.5	3,924	9.5	10,440	21.0	7,829.9	15.8	14,345	30.2
1983	6,365	9.9	6,980	16.6	13,345	26.5	8,192.5	16.3	13,486	26.1
1984	6,225	9.8	6,455	15.2	12,680	25.0	9,155.1	18.1	12,781	24.5
1985	5,950	9.4	5,730	12.8	11,680	22.2	10,224.1	19.5	12,308	22.8
1986	5,700	8.9	5,246	11.3	10,946	20.2	11,319.5	20.9	11,495	21.4
1987	5,520	10.2	4,981	9.2	10,501	19.4	11,333.5	20.9	10,539	18.1
1988	5,690	10.0	3,151	5.6	8,841	15.6	11,512.0	20.3	7,967	12.9
1989	5,780	9.6	1,331	2.2	7,111	11.8	11,664.9	19.3	7,111	10.7
1990	5,593	8.4	0	0.0	5,593	8.4	14,288.6	21.6	n.a.	n.a.

Source: Bank of Japan and Ministry of Finance

Table 6: Japan's Cumulative General Account Budget Deficit, FY 1970-FY 1989

(in billions of yen and percent of nominal gross national product)

Fiscal Year	Construction Bonds		Deficit Bonds		Refinancing Bonds		Total Bonds	
1970	Y2,642.2	3.5%	Y168.8	0.2%	0.0	0.0	Y2,811.0	3.7%
1971	3,851.1	4.7	100.9	0.1	0.0	0.0	3,952.0	4.8
1972	5,818.5	6.0	0.0	0.0	0.0	0.0	5,818.5	6.0
1973	6,943.5	6.0	0.0	0.0	Y606.8	0.5%	7,550.3	6.5
1974	8,403.6	6.1	0.0	0.0	1,254.8	0.9	9,658.4	7.0
1975	11,178.4	7.3	2,116.9	1.4	1,677.7	1.1	14,973.0	9.8
1976	14,530.1	8.5	5,492.8	3.2	2,053.6	1.2	22,076.5	12.9
1977	19,280.8	10.1	10,253.5	5.4	2,367.9	1.2	31,902.2	16.8
1978	24,964.7	12.0	14,647.2	7.0	3,003.7	1.4	42,615.6	20.4
1979	32,181.7	14.3	21,065.7	9.3	3,003.7	1.3	56,251.1	25.0
1980	38,953.5	15.9	28,257.1	11.5	3,299.1	1.3	70,509.7	28.8
1981	45,149.7	17.4	32,916.3	12.7	4,207.3	1.6	82,273.3	31.7
1982	48,589.4	17.8	40,330.1	14.8	7,562.5	2.8	96,482.0	35.4
1983	51,366.3	18.1	47,059.9	16.6	11,268.4	4.0	109,694.6	38.6
1984	53,447.9	17.6	53,074.5	17.5	15,171.0	5.0	121,693.4	40.2
1985	52,830.3	16.4	57,306.0	17.8	24,295.0	7.6	134,431.3	41.8
1986	52,745.0	15.8	58,846.3	17.6	33,535.2	10.0	145,126.5	43.4
1987	51,923.4	14.8	56,803.0	16.2	43,082.8	12.3	151,809.2	43.2
1988	49,307.3	13.2	54,365.5	14.6	53,107.4	14.3	156,780.3	42.1
1989*	48,732.6	12.2	47,825.5	12.0	64,351.8	16.2	160,910.0	40.4

*Percent of GNP based on preliminary FY 1989 nominal growth of 6.9 percent.

Sources: Bank of Japan and Ministry of Finance

Table 7: Japan's Medium-Term Fiscal Projection, FY 1988-FY 1992

(in billions of yen and percent change)

	FY 1988		FY 1989		FY 1990		FY 1991		FY 1992	
Expenditures										
General Account	Y32,982.1	1.2%	Y34,080.5	3.3%	Y36,280.0	6.5%	Y37,480.0	3.3%	Y38,580.0	2.9%
					[36,820.0	8.0	38,600.0	4.8	40,320.0	4.5]
Current Expenditures	25,897.4	1.7	26,869.9	3.8	28,980.0	7.9	30,160.0	4.1	31,240.0	3.6
					[29,410.0	9.5	31,060.0	5.6	32,650.0	5.1]
Capital Expenditures	7,084.7	-0.4	7,210.6	1.8	7,300.0	1.2	7,320.0	0.3	7,340.0	0.3
					[7,410.0	2.8	7,540.0	1.8	7,670.0	1.7]
National Debt Service	11,512.0	1.6	11,664.9	1.3	14,380.0	23.3	14,870.0	3.4	15,050.0	1.2
Transfers to Local Government	10,905.6	7.1	13,368.8	22.6	14,210.0	6.3	15,130.0	6.5	16,090.0	6.3
Industrial Investment Special Account	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0
Total	56,699.7	4.8	60,414.2	6.6	66,170.0	9.5	68,780.0	3.9	69,720.0	1.4
					[66,710.0	10.4	69,900.0	4.8	71,460.0	2.2]
Receipts										
Tax Revenues	45,090.0	9.5	51,010.0	13.1	54,240.0	6.3	56,730.0	4.6	59,930.0	5.6
Nontax Revenues	2,768.7	15.1	2,293.2	-17.2	2,280.0	-0.6	2,330.0	2.2	1,090.0	-53.2
Transfer from National Debt Consolidation Fund	1,300.0	0.0	1,300.0	0.0	0.0	-100.0	0.0	0.0	0.0	0.0
Other	1,468.7	32.8	993.2	-32.4	2,280.0	129.6	2,330.0	2.2	1,090.0	-53.2
Government Bond Issues	8,841.0	-15.8	7,111.0	-19.6	5,780.0	-18.7	5,780.0	0.0	5,780.0	0.0
Deficit Bonds	3,151.0	-36.7	1,331.0	-57.8	0.0	-100.0	0.0	0.0	0.0	0.0
Construction Bonds	5,690.0	3.1	5,780.0	1.6	5,780.0	-18.7	5,780.0	0.0	5,780.0	0.0
Total	56,699.7	4.8	60,414.2	6.6	62,300.0	3.1	64,840.0	4.1	66,800.0	3.0
Shortfall	—	--	--	--	3,870.0		3,940.0		2,920.0	
					[4,410.0		5,060.0		4,660.0]	
Current Expenditures					3,760.0		3,850.0		2,920.0	
					[4,190.0		4,750.0		4,270.0]	
Capital Expenditures					110.0		90.0		60.0	
					[220.0		310.0		390.0]	

Note: Figures in brackets allow for higher spending.

Source: Ministry of Finance

Table 8: Japan's Medium-Term Fiscal Projection, FY 1989-FY 1993

(in billions of yen and percent change)

	FY 1989		FY 1990		FY 1991		FY 1992		FY 1993	
Expenditures										
General Account	Y34,080.5	3.3%	Y35,373.1	3.8%	Y37,200.0	5.2%	Y38,200.0	2.7%	Y39,260.0	2.8%
					[37,760.0	6.7	39,350.0	4.2	41,020.0	4.2]
Current Expenditures	26,869.9	3.8	28,109.9	4.6	29,870.0	6.3	30,860.0	3.3	31,820.0	3.1
					[30,320.0	7.9	31,790.0	4.8	33,250.0	4.6]
Capital Expenditures	7,210.6	1.8	7,163.2	0.7	7,330.0	0.9	7,340.0	0.1	7,440.0	1.4
					[7,440.0	2.4	7,560.0	1.6	7,770.0	2.8]
National Debt Service	11,664.9	1.3	14,288.6	22.5	15,100.0	5.7	15,400.0	2.1	15,590.0	1.2
Transfers to Local Government	13,368.8	22.6	15,275.1	14.3	16,350.0	6.1	17,350.0	6.1	18,370.0	5.9
Industrial Investment Special Account	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0
Total	60,414.2	6.6	66,236.8	9.6	69,950.0	5.6	72,260.0	3.3	74,520.0	3.1
					[70,510.0	6.5	73,410.0	4.1	76,280.0	3.9]
Receipts										
Tax Revenues	51,010.0	13.1	58,040.0	13.7	5,9,980.0	3.4	63,180.0	5.3	66,640.0	5.5
Nontax Revenues	2,293.2	-17.2	2,639.6	15.1	1,120.0	-16.4	1,180.0	5.4	1,330.0	12.7
Transfer from National Debt Consolidation Fund	1,300.0	0.0	1,300.0	0.0	0.0	-100.0	0.0	0.0	0.0	0.0
Other	993.2	-32.4	1,339.6	34.9	1,120.0	-16.4	1,180.0	5.4	1,330.0	12.7
Government Bond Issues	7,111.0	-19.6	5,593.2	-21.3	5,190.0	-7.2	4,790.0	-7.7	4,390.0	-8.4
Deficit Bonds	1,331.0	-57.8	0.0	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction Bonds	5,780.0	1.6	5,593.2	-3.2	5,190.0	-7.2	4,790.0	-7.7	4,390.0	-8.4
Total	60,414.2	6.6	66,236.8	9.6	66,290.0	0.1	69,150.0	4.3	72,360.0	4.6
Shortfall	—	—	--	--	3,660.0		3,110.0		2,160.0	
					[4,220.0		4,260.0		3,920.0]	

Note: Figures in brackets allow for higher spending.

Source: Ministry of Finance